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4 January 1979

MEMORANDUM FOR: Deputy to the DCI for Resource Management
[redacted] SA/DCI

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FROM: Director of Central Intelligence
SUBJECT: Annual Report for 1978

1. The DDCI and I had a discussion on Thursday about the draft Annual Report. I believe he has communicated with John separately on this. I told him that I basically liked the draft report, but I was concerned that it was a bit too long and that I had considerable reluctance to modify it substantially since I had approved the outline in fair detail.

2. Reflecting on this at home on Friday, I decided that it would do me some good to organize my own thoughts as to where we had come in 1978 and where we were likely to be going in 1979. Accordingly, I did an outline and sat down with a tape recorder and the results are attached. Please throw this into your pot of drafts as another consideration. When doing it, I would particularly like to have you get OLC to look carefully at the legislative part of it, [redacted] and Les Dirks at the past and future satellite material, John McMahon at the HUMINT, and any others you think could judge whether we have encapsulated the record and the trends in their areas.

3. Incidentally, I believe this draft could virtually be unclassified at least down to the details about the future.

4. I didn't have any of the drafts with me when I worked on this, nor did I have any list of what Boland's committee specifically requires of us in this report. On the other hand, if those specific requirements don't fit into the framework, they could be tacked on as appendices.

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AT
STANSFIELD TURNER [redacted]

Attachment

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Unclassified When Detached
from Attachment

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2 Jan 1979

ANNUAL REPORT OF THE DCI: THE YEAR 1978 IN RETROSPECT

1. 1978 was a year of organizational change and improvement in the United States Intelligence Community. After almost a year of study and debate in 1977, the President issued a new Executive Order governing the organization and conduct of intelligence early in 1978 (E.O. 12036, 24 January 1978). Six aspects of this new Order bear particular attention because of the impact they have already had on the process of intelligence in our country:

a. Priorities--the cornerstone of a good intelligence function is that it satisfies the needs of its consumers, both by fulfilling the needs which they have today and by preparing for the needs which they will most likely have tomorrow. By various means and with various degrees of success over the years, the American Intelligence Community has attempted to solicit the views of its consumers as to what their needs were, but more often than not it was, in effect, the Intelligence Community itself that had the major say in the setting of its own priorities. Under the new Executive Order, there was established a committee of the National Security Council, the Policy Review Committee (Intelligence) [PRC(I)], composed of the Vice President, the Secretary →

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of State, the Secretary of Treasury, the Secretary of Defense, the Assistant to the President for National Security Affairs, the Chairman of the Joint Chiefs of Staff, and the Director of Central Intelligence, with the latter acting as Chairman. In August, the PRC(I) produced *lists of* two National Intelligence Topics (NITs). One of these was a list of subjects which the members of the committee believed would be of import to them in the near term (6-9 months). There were a total of of these topics, though many embodied several points of emphasis in the same general area. Additionally, the committee produced a second list of topics which it considered to be of longer term concern. The total of these topics was rather more than the Key Intelligence Questions which they, It appears to us that in effect, replaced. /this expansion will make the list^s more useful because they will provide more specific guidance to both the producers the and/collectors of intelligence.

(1) The producers, led by the Director of the National Foreign Assessment Center, have taken each National Intelligence Topic and analyzed what work was being done that would partially fulfill the need and what else needed to be undertaken in order to complete the requirement. In turn, the additional effort has been assigned ~~through~~/~~the~~/Intelligence to the appropriate producers within the Intelligence Community. Since all producers have more tasks than they can normally undertake, some of which are levied by departmental requirements, there was frankly difficulty in obtaining the necessary redirection of effort to ensure satisfaction Topic of the National Intelligence/requirements. At the same time, this initial shock created a greater perturbation to the system than will

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subsequent ones, since in the future the system will only have to accommodate the periodic adjustments to the NITs.

(2) On the collection side of the house, the NITs were utilized by the Collection Tasking Staff to adjust the priorities of the Community for collecting intelligence.

At this level, these are expressed in the Director of Central Intelligence Directive [redacted] as a matrix of intelligence topics versus countries. As a result of the guidance in the NITs, the Collection Tasking Staff added ___ topics to the matrix and found it necessary to adjust ___ priorities out of the ___ assigned in the _____ (interseas??) of the matrix.

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(3) In sum, the process of involving the top consumers in the establishment of priorities is off to a good start. Periodic updatings are called for every four months. The first one in December was, again frankly, not very successful but it was both a new process and a particularly busy season. Our challenge will be to ensure that the same high-level attention that was given to the NITs last August persists in the future so that the topics do represent the needs of the consumers and not the estimates of the Intelligence Community as to what those needs are.

b. Budget Preparation--the new Executive Order provides that the Director of Central Intelligence (DCI) "...shall, to the extent consistent with applicable law, have full and exclusive authority for approval of the National Foreign Intelligence Program

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budget submitted to the President." The break with the past year is that previously the DCI has been chairman of a committee that established the National Foreign Intelligence Program budget.

The new arrangement in its first year of operation has, in my opinion, made it easier to define the national goals which should drive the budget; made it possible to establish a prioritized list of budget items that integrates the ~~program~~ submissions of the program managers in accordance with some judgment of priority rather than simply interleaving them on an equal basis; and makes it easier to force ~~the~~ comparisons between programs which compete with each other or overlap each other. As a check ~~in~~ ^{that} my judgment of the appropriate priorities is not skewed from that which would best serve the country. The PRC(I) on ~~two points in the budget~~ past year reviewed the budget in preparation and after its submission to the President, the PRC(I) was free to make its separate recommendations to the President. It did not concur in the structure of the budget. In this instance, it did not dissent from the budget I submitted, but its advice in the two preparatory sessions was of great value. I believe this new process of preparing the budget went well in its first experience.

c. Collecting Intelligence--the new Executive Order specifically establishes a National Intelligence Tasking Center (NITC) under the DCI. The purpose is to coordinate ~~the tasking of~~ all national foreign intelligence collection activities. The profusion of new and more technical esoteric/means of collecting intelligence over the last decade has

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generated a need to ensure that we are applying the best collection techniques to each problem; that we are not duplicating efforts unnecessarily; and that we are not inadvertently missing important opportunities to collect information because one collection system assumes that another is doing it. Because the operational control of our many technical and our several human intelligence collection systems is spread across almost a dozen different agencies and organizations, there is a real need for some coordinating focal point. Heretofore, this has existed only in the Signals Intelligence and Human Intelligence Committees and the Committee on Imagery Requirements (COMIREX) which operated under the Intelligence Community Staff. Each of these did a fine job of coordinating the efforts of different collection assets each within its own discipline, but each was limited to its own discipline or type of collection system. The task of the NITC is to ensure that we maximize return while minimizing cost and risk through the best application of systems from all three disciplines. It is not the task of the NITC to determine how individual collection systems shall be employed, but rather to determine which ones are best utilized in pursuit of any given intelligence topic.

(1) By the close of the Congressional session in October, the Congress had authorized the establishment of a Deputy Director for Collection Tasking who would take over responsibility for the three collection committees and establish the National Intelligence Tasking Center to coordinate their efforts. This action, in effect, divided

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what had been known as the Intelligence Community Staff into two completely separate segments: a Deputy for Resource Management who supports the DCI's responsibility for preparation of the budget, and a Deputy for Collection Tasking who manages the operations of the NITC. It is far too early to judge the success of the NITC concept, but it appears to me to be off to a good start and fulfilling a very important void.

d. Production of Intelligence--the new Executive Order charges the DCI with the responsibility for the production and dissemination of national foreign intelligence and at the same time cautions him to "...ensure that diverse points of view are considered fully and that differences of judgment within the Intelligence Community are brought to the attention of national policymakers." Importantly, this directive clearly leaves the production agencies of the Defense Department, the State Department, the Treasury Department, and the CIA independent/and intact, and ensures that when they have different viewpoints those viewpoints shall not be stifled. We have attempted to reaffirm this latter point in several ways. One has been to ensure that the National Foreign Intelligence Board, on which all of the principal agencies of the Intelligence Community are represented, reviews and discusses every major national intelligence estimate. On such occasion, members of the Board have a clear opportunity and responsibility to ensure that the DCI is aware of any divergent views which they may believe are not adequately represented in the text of the estimate. Beyond this, I have personally directed that footnotes expressing dissenting views be moved up and into the text itself. It is my strong desire that when a differing opinion is worthy of note it should be placed/in juxtaposition with the major opinion. This should better enable the reader to understand the

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difference and to pass his own judgment. Beyond this, the Director of the National Foreign Assessment Center has created a ~~three-man~~ high-level Review Panel composed of three senior ~~and~~ independent and distinguished professionals from the fields of diplomacy, the military and economics. This Panel is empowered to review the product of the Intelligence Community in process and upon completion. It is only empowered to make suggestions to the Director of the National Foreign Assessment Center and myself, not to participate in the process of developing the estimates and thereby becoming less than fully objective as to their quality.

e. Counterintelligence--the Executive Order provides that another committee of the National Security Council, the Special Coordination Committee, chaired by the Assistant to the President for National Security Affairs, and composed of the Secretary of State, Secretary of Defense, the Attorney General, the Director of the Office of Management and Budget, the Chairman of the Joint Chiefs of Staff, the Director of Central Intelligence, and the Director of the Federal Bureau of Investigation, "shall develop policy with respect to the conduct of counterintelligence activities," resolve interagency differences, monitor counterintelligence activities, and provide the President with an overall annual assessment of them. The activities of this committee have already generated renewed attention to the counterintelligence function which was frankly in something of a state of neglect. Beyond that, I am very pleased to report that under this stimulus there has been a revitalization of the necessary linkage between FBI and CIA counterintelligence activities. Specific new coordinating mechanisms have been established between these two agencies; the exchange of data on counterintelligence between them has been greatly

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expanded; there is a greatly increased periodicity of consultation between them ranging from the level of the Directors ~~as~~ downward. In sum, the counterintelligence function is receiving much needed additional attention today.

f. Restrictions--one whole section of the new Executive Order establishes restrictions on various intelligence activities, particularly those which protect the rights of American citizens. These restrictions are an extension and clarification of those enumerated in the previous (E.O. 11305, 18 February 1974). Executive Order ^a They and the entire Executive Order were developed in close consultation with the Senate Select Committee on Intelligence (the corresponding ^{Committee} of the House not having been in being during most of the formative period), thus establishing a new degree of cooperation ^{our} between these two branches of government. The same cooperation has been extended in the opposite direction throughout 1978 as the Senate Select Committee on Intelligence developed and had hearings on ^a legislative charter for the Intelligence Community. ^{Other} We are very hopeful that this will enable us to have charters and an Executive Order which will closely dovetail with each other.

3. Another important area of evolution in our intelligence activities in 1978 has been in the relationships between the Intelligence Community and the Congress, the other agencies of the other departments and agencies of the Executive Branch, and the public.

a. The Congress--1978 was the second full year of oversight by the Senate Select Committee and the first full year by the House Permanent Select Committee. With this relative ^{newness} ^{news} there have been many procedures and relationships to be worked out. From the point of view of the Intelligence Community, strong and cooperative relationships

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have been established with both committees. In both the Senate and the House, we have had the first authorization bills for intelligence. In the process of reviewing our budget, both committees, as well as the Appropriations Committees, have made substantial contributions. For instance, the questioning of the committees about a proposed new [redacted] and their requirement for specific follow-on reports as to its capabilities and alternatives has led to a major restructuring of that program with potential savings of over half a billion dollars. For instance, also, with the encouragement of the Select Committees, the Joint Appropriations Committee of the Congress appropriated/additional \$25 million in Fiscal Year 1979 for the purpose of improving our capability to monitor a SALT II agreement. This has led to a very constructive reordering of both our Fiscal Year 1979 and 1980 programs. Looking beyond the budget, the two Select Committees provided assistance to the Intelligence Community on __ pieces of legislation being considered by other committees of the Congress but which would have had a deleterious impact on our intelligence capabilities. With these various forms of assistance, the relationship between the Community and the ^{two} ~~new~~ Select Committees is still fundamentally one of oversight. In 1978, I appeared before the two committees a total of __ times to account for other than budgetary matters.

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Other/members There were approximately __ additional hearings at which other representatives of the Community testified. Additionally, I received a total of __ letters from the two Committees requesting written explanations of various actual or alleged intelligence activities; subcommittees investigated and wrote reports on __

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activities; and staff members conducted approximately ____ investigations of various aspects of intelligence. From my perspective, the benefits of this oversight process more than counterbalanced the cost of the effort required. Accountability is an essential element of the effective execution of delicate responsibilities such as are entrusted to us in the Intelligence Community. The added and more external accountability of reporting to the Congress keeps us particularly on our toes.

b. Executive Branch--we have made a number of efforts to provide more complete service to those Cabinet Officers such as Commerce, Treasury and Energy that are not as fully involved in intelligence matters as are Defense and State. With respect to

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c. Public--an overall policy of greater openness with the American public is paying dividends in terms of restoration of deserved confidence in our intelligence operations. This openness serves in a number of ways. One is the more frequent publication of analyses^{and estimates} which can be declassified. Another is more forthright response to inquiries from the media. Another is a more open and active dialogue with American academia, including

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active cooperation in drafting guidelines for academic-intelligence relationships with a number of universities; invitations to university presidents to visit with us and exchange views; speaking engagements on more than a dozen American campuses; and increased participation in symposia conferences and other academic meetings including the presentation of professional papers by our personnel.

d. We have also worked to strengthen the traditionally good relationship with the American business community. In particular, we have sought out ways in which to determine which ~~declassified~~ publications of ours if declassified would be of greatest interest and value to the American business community. Recent events in where Iran with the American business community had such a high stake highlight the importance of our finding better ways within the bounds of propriety of keeping American business informed of what the Intelligence Community is thinking.

④. Successes and Disappointments in 1978:

a. The estimate or warning notice is our end product upon which our efforts should be judged. We have, I believe, made several important steps forward in the techniques of analysis in this past year. Our estimate of the balance of strategic nuclear forces between ourselves and the Soviet Union has adopted a new method of presentation of this complex subject. Counting and comparing missiles, warheads, throw weight, etc., has never been a very satisfactory technique for estimating the strategic balance. We have instead translated those and other characteristics into subscripts of theoretical destructive capability in different

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Soviet Union

comparative circumstances. From this, both the/quantity and the quality of the forces, I believe, emerges more clearly to the reader. In another estimate, that on Soviet military intentions, we took still a different new attack. Here it was impossible to look for any simplified subscript. Instead, we empowered a small group of people to write a relatively short discursive essay. We then permitted critique of this only in matters of substance, not form and wording. The result was a thought-provoking piece which was used and appreciated at high levels in the Executive Branch and which brought out the key issues affecting Soviet military intentions including the areas of key divergence of viewpoints.

b. Teamwork--the new Executive Order has effectively fostered a greater sense of Community outlook. With it we have endeavored to build a greater sense of and opportunity for Community teamwork . We have a weekly conference phone call of all program managers; a monthly breakfast with them; and have had one weekend retreat for discussion of Community matters.

c. There are three particular areas in which we would have liked to have done better:

(1) Security--there were far too many leaks of sensitive intelligence information; some by former intelligence officers; some by unknown persons to newspaper writers or authors; and one disastrous case of espionage by a man named Kampiles. Our efforts to

tighten security both before and after the Kampiles
incident have been considerable but clearly not nearly
successful enough. We have reemphasized security
indoctrination; instituted surprise and later total
inspection of packages and briefcases ~~coming in and~~ ~~coming in???~~ leaving
Central Intelligence Agency buildings; ~~yet~~
emphasized security matters in our repolygraph program;

_____ ; _____ ; _____
The Attorney General has been highly cooperative and the
successful prosecution of Frank Sneed for violation of
his Secrecy Agreement should help with this problem.

Still, the loss of highly sensitive information about
human
our/sources and our technical methods of collecting
intelligence remains the number one threat to our
intelligence activities. I believe we need to do more
to tighten security within the Community. I believe
also we will need some form of legislative assistance.

(2) In November, there was a spate of highly
~~stories~~
exaggerated about an intelligence failure in connection
with Iran. Clearly, we would like to have done better
in supporting our policymakers with respect to Iran.
The probability, however, of predicting internal political
explosions will never be high. We could and should have
emphasized the dissident strains inside Iran for many
months before the November 5th outbreak. Clearly, we

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were not oblivious to these trends but, on the other hand, we did not highlight them nearly enough.

Without appearing to be making excuses, I would point out that this example typifies the problems of collecting sensitive intelligence in friendly countries. Clearly we were inhibited in Iran by our desire not to appear to undercut the Shah in any way and by the pervasiveness of his own intelligence apparatus. We could and should have done better in detecting the political and social undercurrents and have lessons to learn for other places and times.

(3) Support to Congress--while we have emphasized extending our support to as many of the Cabinet Officers as possible, our parallel efforts to reach more committees of the Congress have not borne as much fruit as we had hoped. Hardly a committee in the Congress does not involve itself in some subject that concerns our international relations. I believe there must be a greater need than we are now fulfilling for information on international trends and events by committees other than our regular consumers in foreign affairs and armed services. Our efforts to bridge this gap and determine where our product is most needed ^{have} has uncovered some new needs but not nearly enough.

15. 1978 - The Prospect Forward

a. There are a number of clearly discernible trends that

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will drive the course of American intelligence in the years ahead. The most obvious of these is the increasing sophistication of our technical means of collecting information. In the Fiscal Year 1979 budget, for instance, we initiated work towards a

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[redacted] an entirely new capability which will tax our imaginations and force the development of new interpretive skills.

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[redacted] Such new

techniques are needed and so too are enhancements on our present optical telemetry, communications and electronic signal intercept capabilities. Enemy, especially Soviet, countermoves are becoming more sophisticated and so too must our counter-countermoves. This has generated a severe crisis of resources. Last year, the "bow wave" imagery and

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effect of improvements in our [redacted] satellite programs

[redacted] alone almost terrify [redacted]. We have, as noted earlier, been able

to reduce that substantially beginning with the Fiscal Year 1980 program. During this next year, however, we will be faced with an

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[redacted] identical challenge with respect to our [redacted]

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The time has come to rationalize our five [redacted] into something more manageable, efficient, and effective."

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b. The prospective conclusion of a SALT II agreement, plus any of the other six arms control agreements we are negotiating with the Soviet Union, will present important challenges to us.

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Some terms in these agreements are very difficult to verify. Others will require prodigious amounts of satellite imagery, ingenuity in cracking the difficult nuts, and sophisticated planning in balancing treaty verification requirements and more broad intelligence needs will be essential.

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c. One area in which our national technical systems have much broader application than we have developed today is in support to our military tactical commanders. We have done some exciting and important work in testing the ability of these systems to support military combat operations. In my view, we have only touched our toe in the water. Our ability to move rapidly in developing the capabilities to provide for the military commanders' needs is very important. It is important so as not to underutilize this asset. It is important so as not to encourage the near duplication of national systems with tactical systems when not absolutely necessary.

d. ^{#6 On} At the top of this continuing expansion of technical collection capabilities and requirements, I anticipate in the years just ahead a widening need for good human intelligence. Human intelligence specializes in human intentions.

When we can uncover the intentions of the Soviet Union, we have really made a major step forward, ^{but} That is the most difficult task ^{for} the human intelligence collector. Because of our increasing dependence on or involvement with many non-communist countries, I believe there will be an increasing

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Requirement for good human intelligence outside the Soviet Bloc.
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Here the prospects are greater for obtaining what we need but so too are the risks. We do not like to have our intelligence activities uncovered by the communist nations; we are more embarrassed, however, if uncovered in a friendly or semi-friendly nation. Hence, the accompanying necessity for human intelligence requirements today is better cover and better tradecraft. We are going to have to practice our cover better, which is costly in terms of efficiency; we are going to have to ask for even better cooperation from numerous agencies of the government; and we are going to have to rely more on nongovernmental cover.

Tradecraft is the way we go about our human intelligence collection activities. Again, it is costly in time and effort to take all the preventive measures against compromise but we have no alternative.

e. The quantitative flow of both technical and human intelligence is on ~~the~~/increase. This provides us severe challenges. We must rely more on data processing to sift and collate raw data. We must also rely on data processing to help us manipulate and analyze that data. In turn, our efforts/started in 1978 to rationalize and ensure compatibility of Intelligence Community data processing systems will have to be pursued at even a higher tempo.

f. The final value of intelligence is achieved only if you have first-class analysts. One of the challenges of the years just ahead is to continue to attract and retain an adequate

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base of analytic expertise. Today I am worried that our educational foundations in many of the areas of importance to us are being narrowed. It is especially true of individuals ~~combination~~ who possess the combination of foreign language capability and some specific discipline such as area expertise, chemistry, economics,/cartography, etc. Many such dual requirements are unique in the intelligence field and there is serious doubt as to whether the American academic community can and will supply our needs.

g. Beyond this, we face challenges today in continuing to find young people who are anxious and willing to serve overseas. ^{The} Higher incidence of working married partners does much to inhibit the acceptance of overseas assignments. We are also finding in the human intelligence field that while recruiting in general is quite satisfactory, the willingness to undertake the provisions of a clandestine life overseas is not as prevalent as it has been and is needed. Overall, the attraction and retention of top quality people must be one of our greatest challenges.

h. Finally, the year immediately ahead is, in my view, a very important one with respect to the restrictions on the intelligence activities. We will soon be three years from the end of the Church Committee's investigations. In this period, much thought and attention has gone into how to reconcile the freedoms of a democratic society with the secrecy and clandestinity of necessary intelligence activities. We have, I believe, sorted
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out this problem adequately to write and legislate the authorities and the limitations on intelligence operations that are appropriate to our society. In my view, the country is in an appropriate mood of not wanting to have our intelligence activities unduly circumscribed but yet remaining highly conscious of the desirability of avoiding future abuses. What we need is a balance of a limited number of specific prohibitions on intelligence activities, especially those which invade the privileges of privacy of our citizenry. A larger number of injunctions against various activities but with provisions for exceptions when important to our nation's security and our carefully developed oversight process to assure that both prohibitions and injunctions are being followed as intended. The time is ripe for ~~the legislative~~ a renewal and updating of the legislative charter for intelligence in our country. The window of opportunity may be narrow, however, and I believe it important that we move expeditiously.

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